

January 26, 2007

COMMENTS OF THE PUBLIC SERVICE COMMISSION
IN SUPPORT OF SENATE BILL No. 189

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DATE 1-26-07
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SB 189 corrects an obstacle to the PSC's mission of establishing just and reasonable rates for public utilities. A just and reasonable rate allows a utility to cover its expenses and to earn a fair return, or profit. When utilities think they are not earning enough they can ask the PSC for a rate increase. They can ask for a rate increase as often as they think necessary. However, when utilities are earning more than a fair profit, as determined by the PSC in their last rate case, there is no legal requirement to file for a rate review. The result, not surprisingly, is that utilities in Montana can go for years without a rate review, during which time they may be charging rates far in excess of what is necessary to earn a reasonable profit. This ought to be a serious public interest concern for all Montanans.

The PSC supports this Bill in principle because it improves the regulatory process. This Bill is not aimed at or driven by a single utility. There is, however, one major utility that currently exemplifies the problem that this Bill addresses. Qwest has not had a general rate review for almost 20 years. Annual financial reports filed by Qwest with the Montana Commission indicate that Qwest has been earning profits over the past several years that are significantly in excess of what would be considered reasonable by any regulatory standard. The telecommunications industry has benefited from numerous technological advances in the 20 years since the last Qwest general rate review. Those changes almost certainly have lowered Qwest's operating costs. Yet because there has not been a review of Qwest's rates for many years, none of those operating efficiencies have been passed along as lower rates to Qwest's Montana customers.

This Committee will likely hear arguments against SB 189. It is true for instance that under current law it is theoretically possible to force a rate review, but as a practical matter it does not happen. This Bill would change that. Also, rest assured that the Montana PSC is not interested in calling for rate cases to be filed, unless there is ample financial evidence that rates may not be reasonable. Finally, rates that are stable and

lower than average are a good thing. But rates are utility specific; and the question is not whether rates have been stable, but whether rates are allowing the utility to earn a reasonable profit. Rates that are stable and below average can also result in a utility earning an unreasonably high profit.

This Bill would provide the PSC with an important tool to assure just and reasonable rates. It should be supported by every customer of regulated utility service, as well as by all those who think utilities should earn a fair, but not an unfair, profit. You can be sure that when utilities conclude they are not earning a fair profit, they are quick to ask the PSC for a revenue increase. This Bill will provide some necessary balance and give the PSC the ability to protect consumers by calling for the review of rates when there is ample evidence that a utility is earning excessive profits.

The PSC urges your support of this Bill.